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THE FEDERAL BUDGET: ITS  
RAISON D'ETRE

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## TABLE OF CONTENTS

Chapter	Page
I. INTRODUCTION - WHY IS A BUDGET? . . . . .	1
II. THE EVOLUTION OF OUR BUDGETARY PHILOSOPHY . . . . .	6
III. THE DAWNING REALIZATION OF BUDGETARY POSSIBILITIES . . .	14
IV. CONCLUSIONS AND SOME APPLICATIONS . . . . .	22
BIBLIOGRAPHY . . . . .	25





## CHAPTER I

### INTRODUCTION - WHY IS A BUDGET?

There seems to exist in the minds of all of us laymen a pervading inherent aversion to the very word, "budget". This instinctive reaction is almost universal, transcending vocation, social strata and geophysical environment; co-existent, hovering over our society, hangs a pall of antagonism toward the employment of a budget in our living and working spheres.

Why should this be? Why do we react in this manner to a device whose usage is advocated and practiced by multitudes of professional men who are eminently successful in all fields of management - private industry, government and military?

Our inability to answer these questions precisely and straightforwardly must lie, of course, in the fact that our knowledge of the results obtained through the practical application of a budget in the planning and execution of programs whether on a grand or small scale is quite limited; until we attain that point of administrative responsibility at which we are obligated to modify our professional endeavours in order to conform with limits imposed by certain financial restrictions, our conception of a budget is restricted to the vague consanguinity of enforced economy and paucity. As James L. Peirce put it:

First, it seems to me that this unhappy reaction comes from the fact that people generally do not like budgets. Ask yourself if you like them. If you can truthfully say you do, I venture the guess that



your response has been conditioned by years of self-discipline in a positive atmosphere. To most people, budgets represent restriction. They are in the same general category as school bells and Monday mornings. They simply do not arouse enthusiasm in the normal human being.<sup>1</sup>

The connotations usually associated with the term "budget" are those that imply a rigid, implacable economy. A budget is condemned as a necessary evil, within whose bounds we must conduct our operations; it is imposed - in the Administrative sense - by some higher authority, with little regard to the problems that confront those of us at the operating levels. Visualized as a restrictive force, a robot turnkey incarcerating our natural inclinations, ambitions, imaginations and freedom, it seems, at best, an undesirable curtailment of operational flexibility.

One of the objectives of this paper is to attempt to show that these conceptions are erroneous - to demonstrate that a budget, realistically conceived and intelligently executed, is not merely a pressure device to attain economy, but an instrument useful to any official as a means of planning, whereby the relative importance of programs, projects and their goals may be evaluated, secondly, the tool through which positive and constant control of these programs may be realized, and lastly, the yardstick by which assessment of accomplishment may be made constantly and accurately available.

The above uses of a budget apply to an organization as an entity. In a structure such as that of the United States Navy, comprised of multitudes of similarly constructed and administered units there would seem to

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<sup>1</sup>J. L. Peirce, Budgets and People - a Positive Approach, a paper presented to the Finance Conference of the American Management Association at New York, 1953, P. 1





be, at lower Administrative levels many other fields of practical usage of the budget that have been hitherto undeveloped. For example, at corresponding levels within the chain of authority might not the budgets of different units be utilized as a measure of competitive performance - and in addition serve as a means of rendering assistance to individual units, by drawing attention to potential difficulties before they reach maturity? This speculation will receive further consideration in Chapter IV.

At the higher Administrative levels, in Government and in all Federal agencies, in order to have its optimum effectiveness, the budget must be devised with an attitude of mutual striving toward accomplishment of a common goal; this co-operative attitude must exist in those bodies empowered to formulate, appropriate, and execute the budget. Where any one portion of this Administrative chain is remiss, the budget is proportionally unable to fulfill its mission:

The success of any system is dependent largely upon the spirit in which it is administered, and the skill and energy employed by those having responsibility for such Administration.<sup>2</sup>

Due to the overwhelming scope of budgetary operations, the following pages are in no wise an attempt to discuss the divers technical mechanics of the budget formulation or execution process; nor will they present a complete historical narrative of legislation affecting our Federal budget. Rather, they will delve into the questions of why do we have a budget? Why is our budget system fashioned the way it is? And, finally, how can the budget best be utilized to increase the performance/efficiency of Federal agencies? Through a perusal of the national

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<sup>2</sup>H. P. Seidemann, "The Preparation of the National Budget", The Annals of the American Academy of Political Science, cxii (May, 1924) 49.



philosophies and policies that have had an impact on our economy, and have been translated into budgetary changes, particularly during the formative years of the Federal Budget system, it is hoped that a better understanding may be reached; that same understanding is vital to the healthy attitude necessary to attain success in the use of the budget at all Administrative levels:

In probing this question further, it soon becomes evident that attitudes are the key to successful budgeting. When the attitudes of people toward each other are generous, understanding, and based on mutual respect, any technique adopted by management to further good performance is apt to be successful. When human attitudes are dominated by distrust, criticism and recrimination, budgets are apt to fail miserably. By a strange twist of human nature, in such cases the budgets and those who defend them bear the brunt of the blame for more fundamental errors having nothing to do with budgets.

For budgeting itself is an attitude. It is a trained, disciplined approach to all problems which recognizes the need for standards of performance in order to achieve a result.<sup>3</sup>

Permeation of the above basic salutary attitude throughout all levels of an Agency is an essential to the completely efficient and pragmatic execution and formulation of our Defense budget. In Chapter IV, we shall see how this enthusiastic attitude can be used to promote efficiency at lower administrative levels of one of the most progressive and aggressive of the Federal Agencies, the United States Navy.

From past experience, it would appear that many Naval Officers have little understanding of the reasons for, and philosophies underlying our budget, until brought into direct contact with it because of the nature of their duties. This paper, therefore, rather than a comprehensive erudite treatment, may more readily be regarded as an elementary background,

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<sup>3</sup>Peirce, op. cit., p. 3







compiled by a tyro, for tyros.

And now, prior to the actual discussion of why we have a budget, how we should regard it, and how we should use it, it appears appropriate to attempt to define the budget as it is used in an Administrative organization. Budgetary authorities have several similar contributions toward a definition:

The budget in the strict sense of that term is a complete financial plan for a definite period which is based upon careful estimates both of the expenditure needs and of the probable income of the government.<sup>4</sup>

It has also been stated that:

The term "budget" as used in this country as it relates to the Federal government means more than just the budget document. The budget comprehends the whole financial plan of the Government, including all the work necessary for the compiling of estimates of revenues and expenditures, the preparation of the document itself, the submission to Congress and its action thereon, and its execution by the President through the Executive Departments. It constitutes the basis on which the working program of the Government should be performed.<sup>5</sup>

Buck says much the same, in a simpler form: "Public budgeting is the process by which the financial policy of a government, including the monetary requirements, is formulated, adopted, and carried into effect."<sup>6</sup>

In short, a budget is a financial plan; our modern concept goes one step further. Our Federal Budget today represents policies and plans, translated to financial terms for simplicity of evaluation, and hence is a concrete, unadorned proclamation of our national attitude, or philosophy.

<sup>4</sup>A. E. Buck, Budget Making, (New York: D. Appleton & Co., 1921), p. 2

<sup>5</sup>E. E. Naylor, The Federal Budget System in Operation, (Washington: Columbus University, 1941) p. 10

<sup>6</sup>A. E. Buck, Public Budgeting, (New York: Harper & Bros., 1929), p. 3



## CHAPTER II

### THE EVOLUTION OF OUR BUDGETARY PHILOSOPHY

For almost one and a half centuries the United States of America sustained itself as an economic entity without the aid of a budget. This period encompassed three wars, depressions, threats of other wars, extremely rapid expansion in both the geographic and population senses, and many other influences and crises of a nature disruptive to a stable economy.

Why, then, may well be asked, was there a sudden decision to radically change our country's mode of financial operation through the establishment of a well-delineated budget system?

This question, as it is phrased above, is fallacious, and hence cannot be answered - for there was no "sudden decision" nor was the change so very radical.

The Budget and Accounting Act of 1921, did, it is true, for the first time institute the Federal Budget, but it was far from a revolutionary remodeling of our financial system. On the contrary, it was the end result, the culmination of slowly-developing philosophies modified constantly by the ever-changing amorphous requirements of progressive economic eras. The Budget System, as we know it today is the product of a turmoil of conflicting philosophies, conceived in the wane of abundance, fostered in dissonance, and matured through necessity.

These philosophies seem to follow roughly a path that leads through four general areas. The earliest attitude was to use financial planning,





and hence a budget, to insure the pay-as-you go policy, and was possible due only to the abundance of money. It was replaced by the usage of financial planning to prevent waste and graft; with the passage of time, it became necessary for our government to match its revenue and expenditures in order to obtain maximum utilization of the dollar. We reach finally the stage wherein the budget is becoming synonymous with policy and plans.

The problem facing the Federal Government is how to effect the optimum reconciliation of it's spending power and it's acquisition of monies. It was in the period shortly after the Revolutionary War that this problem first began to manifest itself; until the latter few years of the eighteenth century, procedures were so uncomplicated, the actual amounts of money involved were so small and the supply so ready, that Alexander Hamilton approached a veritable soothsayer's status in recognizing any potential expenditure problem:

One of the ugly problems that reared its head and that has remained with us to the present day was found in the absence of formal connection between the appropriation bills and the revenue bills. It has already been pointed out that from the very first years of government many and frequently large appropriations were passed each year in addition to what might be called the general appropriation. Then, as now, it was not known until the end of the session how much money was appropriated, or how the outgo compared with the income. On the other side, the revenue was considered for reasons not always related to probable expenditures.

Due in a great measure to the personality and ability of Hamilton, the Secretary of the Treasury, during the early days of the establishment of our national financial system wielded tremendous power. Inasmuch as the Treasurer was required in 1789 to present to the House an estimate of the sums to be appropriated, some authorities believe our budget system was sound in the beginning. However, Hamilton's power

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<sup>7</sup>V. J. Browne, The Control of the Public Budget (Washington: Public Affairs Press, 1949) p. 43.



became so strong that Congress felt the need to further the established system of checks and balances, to maintain its legislative control. The second great problem in establishing a financial modus operandi now arose; what authority should executive departments have to divert funds from one appropriation to another? This resulted in the doctrine of specific appropriations:

The trend away from gross appropriations and the development of increasing itemization seems to have been to some extent a strategy to control Hamilton. It should be noted at this point that despite such remarkable reports as these on the public credit and on manufactures, the members of Congress were not well informed about either expenditures or revenues.<sup>8</sup>

We find that in the formative years of our Federal financial system, the over-all philosophy became one of providing a means of meeting all Federal obligations, and of providing an elaborate system of checks and balances to provide a balance of power between legislative and executive branches to preclude any tampering with Federal funds. We find evidence of no systematic executive-legislative relationship, nor any provision for close scrutiny of expenditures and receipts:

In the first years of the United States Government, it was assumed that the Administration would take the lead in presenting to Congress information regarding the state of the National Finances and the needs of the Government in respect to revenues and the appropriations required in order that the Government might properly discharge its functions.<sup>9</sup>

It seems obvious that up until this point, the executive (which included the Treasury) department seems to have had more or less absolute

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<sup>8</sup>Ibid., p. 37

<sup>9</sup>W. F. Willoughby, The National Budget System (Baltimore: The Johns Hopkins Press, 1927) p. 4.







control of the country's finances:

It must not be thought, however, that it was the intention of Congress that either the executive or administrative officers should become responsible for the formulation of appropriation measures. This early dependence upon the Treasury seems to have arisen because of the unpreparedness and lack of time on the part of the members to prepare the estimated expenditures. It is also evidence of their abiding faith in Hamilton.<sup>10</sup>

The philosophy thus established, that of matching revenues to anticipated expenditures, was satisfactory despite its obvious weaknesses. The period of transition, beginning with the establishment of the House Ways and Means Committee, saw a new vigilance being exercised by the Legislative branch over the country's finances at the dawn of the nineteenth century.

After the establishment of the Ways and Means Committee, and during the regime of Jefferson, a change in this philosophy became apparent; it now became necessary to reduce expenditures in order to accomplish an over-all goal of retirement of public debt and a reduction of taxes. Extreme economy became the watchword in all government agencies, particularly in the War and Navy Departments. The extreme frugality of this period is starkly revealed; the gross debt, 80.7 millions in 1801, was 45.2 millions in 1811. In all but one of these years, gross receipts surpassed gross expenditures, although all taxes were drastically reduced. During the period, the basic system as evolved by Hamilton, remained intact; it was reorganized only to the extent that more methodical measures were adopted. Specific appropriations were used, and for the first time, we find a convention akin to a budget system, when the Ways and Means Committee, in

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<sup>10</sup>Browne, op. cit., p. 35



order to implement the policy of economy, achieved control of the expenditure program as well as revenue measures.

Our national philosophy of frugality achieved its purpose; however, the country was left ill-prepared for a violent disruptive influence on the economy. Jefferson's attitude was plainly stated:

In our care too of the public contributions entrusted to our direction, it would be prudent to multiply barriers against their dissipation, by appropriating specific sums to every specific purpose susceptible of definition; by disallowing all applications of money varying from the appropriation in object, or transcending it in amount; by reducing the undefined field of contingencies, and thereby circumscribing discretionary powers over money; and by bringing back to a single department all accountabilities for money, where the examinations may be prompt, efficacious, and uniform.<sup>11</sup>

As a consequence of this policy, the war of 1812 found the Army and the Navy far below requisite strength.

Valuable lessons were learned from those two mistakes of extremism, however, and as we progressed into a radically different era of economic life our national attitude was now modified to one of much greater practicality. Forcible realization of the need for military strength adequate to provide for rapid adjustment to wartime conditions precluded further arbitrary cuts in War and Navy Department appropriations.

The era from the post-war of 1812 period had little to contribute toward attainment of a budgetary system. It was characterized by increasing Congressional control over Federal revenues and expenditures, and a waning of control by the executive department. The lack of relationship between expenditures and revenues became more pronounced:

The original Congressional fiscal organization, headed by the Ways and Means Committee in the House and the Finance Committee in the

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<sup>11</sup>Ibid., p. 39





Senate remained substantially intact up to the time of the Civil War. Though far from perfect, it was fairly efficient, but unfortunately, it was changed in the wrong direction during the war. To relieve the Committees of some of their work load, Congress left only revenue measures in their hands and created a new Committee on Appropriations in each House, thereby separating the function of raising money from the function of spending it.

Even this procedure was not allowed to operate for very long. Department heads began to submit their appropriation requests to the committees which governed their Departments, realizing that in this way their estimates would be given more friendly treatment.<sup>12</sup>

Having passed through the first two phases of the trend toward a budget-type operation of our Federal finances, this period of turmoil may be viewed as the third stage. Our financial policies were in a constant state of flux; cyclical periods of extravagance and paucity were typical through this span; it may be truthfully said that our national fiscal policy was non-existent. Legislation in Congress in the latter half of the nineteenth century was restrictive in nature, but seemed to be more a jealous guarding of power rather than constructive endeavours to establish a firm, workable system, and consequently promoted further disorder:

The inevitable Congressional reaction followed; legislation in 1868, 1870 and 1874 effectively removed all legal authority for the executive departments either to transfer appropriations or to use appropriations unspent in previous years. The departments were thus compelled to take the deficiency route in order to escape the restrictions of the system - a route that probably lent itself to more abuse by the executive departments than those that the Congress had so painstakingly blocked off.<sup>13</sup>

A basic weakness of the period is mentioned by Naylor:

An outstanding characteristic of the period discussed above was the fact that the President apparently had no part in relation to the financial needs of the Federal Government. At least, there was no specific statutory authority for him to act and the only way in which

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<sup>12</sup>p. Studenski and H. E. Krooss, Financial History of the United States, (New York: McGraw-Hill Book Co. Inc., 1952) p. 210.

<sup>13</sup>A. Smithies, The Budgetary Process in the United States, (New York: McGraw-Hill Book Co. Inc., 1955), p. 56.





he could make known his ideas relative to such financial problems was to discuss such matters with the cabinet members, who were the heads of the various departments. Apparently, in the early days Congress did not seek the views of the President on such financial matters.<sup>14</sup>

In the early days of the twentieth century an increasing clamor for a revised and efficient fiscal system resulted in the first attempts to establish the nation's financial structure and policy through long-needed realistic legislation.

The Sundry Civil Expenses Appropriations Act of March, 1909 required that the President recommend to Congress how, in his opinion, estimated appropriations could best be reduced so as to bring appropriations within the estimated revenues.<sup>15</sup>

In these years President Taft assumed the role of the moving spirit behind the drive for a Budget-type financial operation. His Commission on Economy and Efficiency in 1911, in its findings and recommendations, included a report on "The Need for a National Budget".<sup>16</sup>

The law of 1909, although a step in the right direction, was inadequate in that its scope was limited; what was needed was a budget that would have provisions for complete and precise financial control of all agencies:

Though the Secretary of the Treasury was required to lay before Congress each year the estimates of expenditures for the year to come, these estimates far from represented a consistent financial program. The essential basis for the elaboration of such a program existed neither in law nor in practice. Though the law required all the estimates to be submitted by the Secretary of The Treasury, that officer acted as a

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<sup>14</sup>E. E. Naylor, The Federal Budget System in Operation, (Washington: Columbia University, 1941) p. 17.

<sup>15</sup>Ibid., p. 18

<sup>16</sup>A. E. Buck, The Budget in Governments of Today, (New York: The MacMillan Company, 1934) p. 40.





mere compiling authority; he had no power to modify proposals transmitted to him by the Heads of the Administrative Departments.<sup>17</sup>

The demand for a national budget manifested itself in all quarters; within a decade of the Taft Commission's reports, almost every state in the Union had provided for budgetary methods. President Taft himself said:

The Government is not only in the position of having gone along for a century without a budget, but what is at this time even more to the point, it has not the organic means either for preparing or for considering one. In the executive branch there is no established agency which may be utilized for assembling the data required for the preparation of budget summaries. The law governing estimates requires that they be prepared and submitted by various heads of Departments and independent establishments without executive review or revision. This makes it impossible to submit a budget unless the President does it on his own initiative.<sup>18</sup>

This chapter has shown the influences on our country's economic growth of the successive attitudes and philosophies that resulted in a universal demand for a budget system during the first two decades of the twentieth century. The Budget and Accounting Act of 1921 was the end product these pressures, the instrument through which the spirit of the Administration must be expressed:

We now have the legislative and executive machinery required for budgetary and fiscal policy purposes. But machinery alone cannot do the job. There must be a much fuller understanding throughout the government of the National objectives. I have indicated that the proponents of fiscal policy have not fully appreciated the need for the rather tedious budget process, and that the budget process itself has been evolved with little regard for the need for a positive fiscal policy. Fiscal policy can be neither responsible nor acceptable without good budgeting.<sup>19</sup>

<sup>17</sup>Willoughby, op. cit., p. 9.

<sup>18</sup>Hon. John J. Fitzgerald, House of Representatives, speech quoted in Articles on the National Budget, 1913.

<sup>19</sup>A. Smithies, "Federal Budgeting and Fiscal Policy", Basic Economics, ed. by A. D. Gayer, C. L. Harriss and M. H. Spencer (New York: Prentice-Hall, Inc., 1951), p. 497.





### CHAPTER III

#### THE DAWNING REALIZATION OF BUDGETARY POSSIBILITIES

The preceding Chapter has been in the nature of background. No philosophy, policy, attitude or system can be formulated overnight on as large a scale as one encompassing the economic life and defense of a nation. This brief portrayal of forced philosophies, each having a tempering effect on its successor, and each in turn having its incipient origin not from mere predilection but from the most urgent exigency, has served to make more realistic our current conception of the Federal Budget.

There is no doubt but what there is room for improvement in the Administrative mechanics that are involved in both Budget formulation and execution. However, it is the sincere belief of the author and the theme of this modest paper that the first objective has now been attained; the existence of a mature attitude toward the budget. The success of the budget is proportional to the degree of permeation of this attitude at all levels of the Governmental structure:

What matters more than anything else is surely that there should be general recognition of the essential part played by financial control in management. Financial control must not be regarded as a formidable obstacle that has to be overcome before some new undertaking can go ahead, still less as a constable to be outwitted, if need be by some clever dodge.

Once it is understood that financial control is an essential function of management, it follows that every individual on the staff of any authority or enterprise should regard it as an inherent and inescapable part of his job to do his business in an orderly and prudent way, which will prevent waste.<sup>20</sup>

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<sup>20</sup>Sir Edward Bridges, G.C.B., G.C.V.O., M.C., Financial Control: Its Place in Management, (London: MacDonald E Evans Ltd., 1951) p. 1.



Granted that much of the resisting human element must still - and may never - be overcome; still, the great stride taken by the Budget and Accounting Act has determined the primary modern concept of a budget. As an instrument through which a democracy may be successfully managed, it has constructed the framework for potential application of principles which meets all the requirements of one of the critics of budgetary management; Frederick A. Cleveland has listed these requirements as executive leadership, a well disciplined line organization, a specialized staff organization, facilities for inquiry and criticism by a body independent of the executive, and a means of control in the hands of the representatives of the people.<sup>21</sup>

At the same time, Cleveland stated: "A budget at best is only an instrument of control."<sup>22</sup>

The Act of 1921, in general instituted a comprehensive Presidential Budget. Its most salient innovation, of course, was the formation of the Bureau of the Budget. The responsibilities of the Bureau, in short, are to prepare the Federal Budget; to receive, correlate and revise the estimates of all the Departments; and to conduct continuous studies of the various Departments in the interests of economy and efficiency. Establishing the Bureau of the Budget gave the executive the necessary tools with which to create a degree of harmony and correlation between the monetary estimates of the various agencies; thus he was enabled to present to Congress a clearer view of the financial plans of the country, and enable the Congress to enact individual appropriation laws with the knowledge of the approximate total expenditures of the government.

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<sup>21</sup>F. A. Cleveland, address before the National Municipal League Conference, November 22, 1917.

<sup>22</sup>Ibid.





The same Act set up the General Accounting Office under the Comptroller General, nominated by the President, confirmed by the Senate, and removable only by a joint resolution of Congress. Thus the General Accounting Office is regarded by Congress as its own agency.

The Budget and Accounting Act represented the desire of the entire country to create a workable financial system so that the National Government might fulfill its responsibility in a desperate need for economy. It created a semblance of order out of economic imbroglio:

Before this Act was passed, there was virtually no budgeting. Heads of the various departments made requests to Congress without knowing or caring what others were requesting. The result was a chaotic hodgepodge of appropriations. There was no plan for determining a proper total level of expenditures and no real idea of the relationship between the revenues to be received and the amounts appropriated.<sup>23</sup>

For the first time in our National History, we could speak of a budget process comprising formulation by the executive, authorization by Congress, execution under the direction of the President, and independent audit as a means of legislative review.

Since this time, however, the attitude toward the budget has undergone noticeable change. Realization slowly dawned that the system as established in 1921 was not merely a mechanical innovation to straighten out our muddled fiscal affairs, but also a portrayal of our national philosophy. A dramatic demonstration of this awareness is shown by the statement of the late Franklin D. Roosevelt, in 1938: "the budget reports are the nation's financial plans."<sup>24</sup>

What a difference from the concept of our budget used merely as a

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<sup>23</sup>P. H. Douglas, Economy In the National Government, (Chicago: The University of Chicago Press, 1952) p. 42.

<sup>24</sup>F. D. Roosevelt, in his message to Congress, January, 1938.





preventative for the misuse of funds; and yet, only three years later, a still more forceful statement implying a more marked difference in philosophy was made: "the Budget of the United States represents our National program. It is a preview of our work plan, a forecast of things to come. It charts the course of the Nation."<sup>25</sup>

The difference in these two statements lies basically in the presence in one, and absence in the other, of the word "financial". Thus have we finally, after decades of turmoil, realized that our budget is nothing more nor less than the translation of our national philosophy - and hence our policy, plans and programs - into readily understood terms of dollars and cents.

Since 1921, there have been other influences on the Budget process. In 1939, the duties of the Budget Bureau were clearly defined;

1. To assist the President in the preparation of the budget, and the formation of the fiscal program of the government.
2. To supervise and control the administration of the budget.
3. To conduct research, and advise the departments on improved administrative practices.
4. To aid the President in efficiency and economy.
5. To assist the President by co-ordinating departmental advice.
6. To assist in the formulation of executive orders.
7. To plan, improve and develop statistical services.
8. To co-ordinate work programs, for the most economical expenditure of money.

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<sup>25</sup>Ibid., 1941



In 1949 and 1950, legislation following the recommendations of the Hoover Commission made mandatory presentation of the Budget based on functions, activities, and programs and designated a "performance budget"; the primary intent of this legislation was to further the cause of public comprehension of the budget, in terms of policy objectives.<sup>26</sup>

Some attention must be given to the performance budget; its institution is the most important reform on the budget process since the Act of 1921. Its general aspects are aptly described by Catheryn Seckler-Hudson:

The performance budget system provides no magic formula for the cure of all governmental weaknesses. It does offer a more meaningful basis for administrative efficiency, executive leadership, legislative action, administrative accountability, and effective citizen participation. (It) ----- basically means a focus of attention of the ends to be served by the government rather than on the dollars to be spent. In the formulation of a performance budget the most important single task, then, is the precise definition of the work to be done and a careful estimate of what that work will cost. In the United States where the annual budget approaches the 100-billion dollar mark, where annual Federal spending amounts to more than 25 percent of the national income, and where more than 50 million individuals contribute to the public purse of the nation, the concept of ends to be served by the government takes on a practical meaning for everyone.<sup>27</sup>

Smithies reacts very favorably to the program budget:

The Budgetary process in the United States is essentially one of program evaluation. As the functions of the government have grown more complicated, it has become essential to devise ways in which the relative merits of competing programs can be assessed, and in which the merits of the government's program as a whole can be compared with its cost. The result has been a budgetary process that is necessarily long and complicated, but has been increasingly successful in improving the efficiency of the government and in bringing essential issues before the President and Congress for decision.<sup>28</sup>

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<sup>26</sup>A. Smithies, "The Budgetary Process in the United States", op. cit., p. 83.

<sup>27</sup>C. Seckler-Hudson, "Performance Budgeting in Government", Advanced Management (reprint.), undated.

<sup>28</sup>A. Smithies, "Federal Budgeting and Fiscal Policy", op. cit., p. 495.







Before continuing, it is necessary that a more or less sententious examination of the mechanics involved in the budgetary process, at the higher Administrative levels, be made. Briefly, there are four periods in the budget-making system. The first is the establishment of ceilings, or the outlining of our national policies. Beginning a year and a half before the fiscal year, it involves the general discussion of proposed programs between department heads, the Estimates and Fiscal Divisions of the Bureau of the Budget, and the Budget Director. Questions of policy are clarified, and estimates are made of total expenditures. Six months later, programs are viewed against each other, discussed in the light of national policy, and the tentative budget is outlined.

The second phase is Administrative Review. The individual examiners must submit detailed budgets, with justification, to the Bureau examiners. The President and Budget Director review policy issued, hear appeals of the Departments, and this phase closes six months before execution of the budget is presented to Congress by the President. In the third phase, which evokes the most virulent criticism by budgetary authorities, hearings are held by Appropriations Committee sub-committees, full membership of both Houses votes on final bills, and the budget is returned to the executive. The final phase commences when the President signs the appropriations, and they are administered to the departments through the Budget Bureau.

This chapter thus far has briefly described the concept of our modern budget. Having arrived at what sounds like the optimum, let us consider some of the existent factors that prevent our modern system from



being a complete panacea for financial and economic infirmity. It must be acknowledged that there does exist room for improvement:

As is well-known, the present so-called Federal Budget is nothing more than a system of financial record-keeping. All taken together, of whatever historical interest or Administrative convenience, it is only a listing of numbers with no over-all financial meaning. It is misleading as a guide to appraising the impact of the Federal Government's intake and outgo on the private economy and on the soundness of money.<sup>29</sup>

It has been maintained that we still do not have a true program, or performance budget. The budget document, a volume of more than 2000 pages, lists voluminous statistics about what the government intends to buy, but is sadly lacking in information as to why these expenditures should be made. The President's budget message presents the proper kind of information, but in an extremely general way, with headings far too broad to provide bases for making appropriations decisions.

Another inherent weakness seems to be the impracticality of Congressional decision in the military fields, when their ability to make decisions is limited by lack of technical knowledge, by security restrictions, and by the time-element limitation imposed by the myriad interests and duties to be completed in a foreshortened work-year.

The sub-committees have little opportunity to fit their own studies into the budget as a whole. This results in a frustration of authority on the part of Congress, for readily understood reasons; the member of a sub-committee is left with alternative decisions to follow only in matters of minute and mundane importance: "The budget which is enacted into law comes out of the legislature in a piecemeal fashion

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<sup>29</sup>B. Ruml, "Budget Reform-Round Two", an address before the Academy of Political Science, November 5, 1953.







like so much sausage out of a meat grinder.<sup>30</sup>

This particular problem is posed very succinctly by J. Cameron Thomson:

"Where in government," we asked ourselves, "does some group look at each year's budget as a whole and compare the benefits the nation gets from government services with the things individuals and businesses give up to make these services possible?" We feel this is one of the most crucial considerations involved in deciding whether to spend or not to spend. Unless tax policies and expenditure policies are co-ordinated at all levels, nobody can really claim that spending decisions have been made with full regard to the consequences.<sup>31</sup>

There are other weaknesses in the system, most of which seem to deal with the mechanical Administrative processes of Budget formulation. However, to return to the theme of this paper, and at the expense of some reiteration, it is believed that a healthy, realistic attitude toward the budget now exists in all branches of our government. A perusal of the initial chapters reveals the constant development of realistic usage, through an underlying vying for power. We now have a common desire to utilize the budget as an expression of our national philosophy - in a narrower, more precise sense, it is a statement of plans, an instrument with which to execute them, and a provision for assessing them. Our attention must now be focussed on the practical application of the budget, and the potential benefits to be derived from an attitude of enthusiasm in this application.

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<sup>30</sup>V. J. Browne, op. cit., p. 5

<sup>31</sup>J. C. Thomson, "Budgeting Billions", an Address to the University of Michigan Business School Alumni Association, May 14, 1955.



## CHAPTER IV

### CONCLUSIONS AND SOME APPLICATIONS

We now have seen why our country has a budget, and why it is in the format of a performance budget. It has been shown that only through this means can optimum administrative efficiency be coupled with the conveyance of full understanding of our national goals to all our Administrators and citizenry.

The Budget and Accounting Act of 1921 was the cornerstone of a matured attitude toward our budgetary system, refined by the institution of a program budget in 1949 and 1950.

In our Navy, as in all agencies, the budget is not fully understood by all personnel at the operating levels; in consequence, there is much potential good, in the way of increased efficiency, to be realized from its employment. The full realization of the benefits to be derived from the application of an enthusiastic supporting attitude is the factor that can make or break the budget program. Although the budget execution process today has made tremendous strides toward the elimination of poor administrative practices (such as a year-end rush to expend monies in order to justify appropriations for the forthcoming year), it is believed that the practical use of the budget could be greatly expanded as a measure of efficiency, and as an indicator of potential future problems. A chart similar to that shown in figure 1 might be used for operating units, to insure budget-expenditures within a certain percentage tolerance. This





chart is based on an aircraft's "Howgozit" curve for extended over-water flights, and permits an interesting parallel; that of an aircraft's plot of fuel against hours, and an activity's plot of money against months. To project the simile, as an aircraft is allowed a certain margin to compensate for enroute variables, so should a budget. Exceeding that predetermined margin, or a trend toward its excess, is the indication that either procedures should be examined and modified, or that the budget itself should be changed. Similarly, a difference in the plotted trends of similar units would indicate examination. Fortunately, unlike the aircraft the activity may be refueled (re-budgeted) enroute.

A second proposal, designed to stimulate more wide-spread interest in, and enthusiasm for, the performance budget, is to include budget conformation as a section to be included in all departmental inspection forms; or to institute unit awards as incentives toward budgetary efficiency.

The budget is of ever-increasing importance to the military. The large percentage of national expenditure that is devoted to Defense serves to spotlight national attention on military performance. This attention can be intelligently applied through the use of the program budget. We of the Services must know the mechanics of our budget process, and even more important, must realize why it is so necessary that we have a budget, and so imperative that we understand how to use it effectively. A budget is the result of a philosophy; its proper execution is a measure of the attitude of its Administrators:

----the Military Establishment seems to be launched on a new era. The policies that this country has adopted in its conflict with the Soviet



Union have projected American military as well as economic power into world politics with unprecedented force - and at unprecedented cost. In these circumstances, the Government's legislators and Administrators must exercise their authority over the armed forces more effectively than they have in the past -----<sup>32</sup>.

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<sup>32</sup>E. Huzar, The Purse and the Sword, (Ithaca: The Cornell University Press, 1950), p. vii.





# BUDGET HOWGOZIT GRAPH

TIME IN MONTHS

1 2 3 4 5 6 7 8 9 10 11 12

1. Drop ETP. PNR and FFT Lines in Red.
2. Draw horizontal lines for FFC, ERR, Holding and Alternate in Red.
3. Plot FFC Curve in Black.
4. Plot Critical Curve (FFC + 10%) in Red.
5. Hourly in flight plot Fuel Used versus Time in Blue.
6. Move Points found 5 Right or Left according to minutes ahead or behind Flight Plan. Plot with Green Line. Green Line is true indication of Flight Safety.

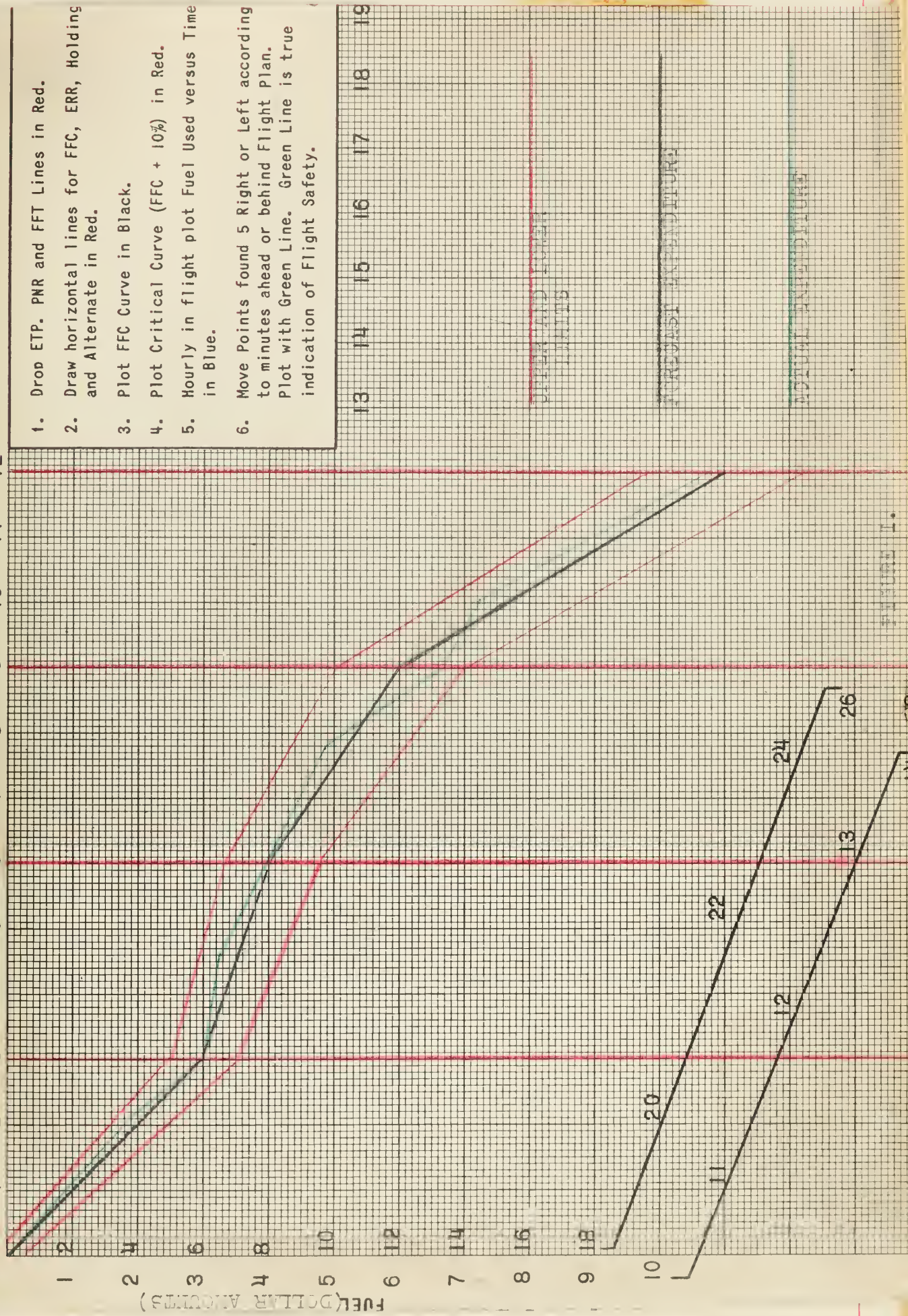


FIGURE 1.





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